
Financial Plan and Fund Structure

Revenue growth in the District of Columbia led to a large surplus in FY 2004, and prospects are good for continued growth that will ensure a balanced financial plan in coming years. The FY 2006 Proposed Budget and Financial Plan utilizes a portion of these increased General Fund revenues to finance new initiatives, transfer funds to pay for capital projects, and make a down payment now to reduce large future liabilities.

FY 2004 marked the District's eighth consecutive balanced budget, with a large surplus and an unqualified ("clean") audit opinion. At the end of FY 1996, the District's fund balance showed nearly a \$500 million accumulated deficit; eight years later, it has a \$1.2 billion accumulated surplus—a turnaround of about \$1.7 billion.

The District's ratings on its debt continue to improve. Wall Street bond rating agencies have recognized the District's improved financial status by upgrading the ratings on its debt. For the first time, three major rating agencies—Standard & Poor's, Moody's, and Fitch—now rate the District's debt in the A range. These actions represent a vote of confidence for the District's financial prospects, and they come at a time when other jurisdictions are having their ratings downgraded.

While recent years' operating budgets have ended with healthy surpluses, the District still finds it difficult to meet the challenges of providing services for the needs of a state, county, and city population. This difficulty is perhaps most

evident in the capital budget, as borrowing constraints and a shortfall in the capital fund balance combine to limit capital spending below what the District would desire. The Mayor's proposed budget transfers some of the accumulated balance in the General Fund to the capital fund.

In addition, future costs can always upset a financial plan that has a small margin of surplus. One known cost that will affect the District by FY 2008 is the need to recognize as a liability the future health insurance costs of retired District workers. The Mayor proposes to use another portion of the accumulated fund balance to offset some of these costs. Without such a down payment now, when funds are available, the cost in 2008 will be even higher.

This chapter's primary focus is the financial plan for the General Fund operating budget, which displays the past year, the current year, the proposed FY 2006 revenue and expenditure budget, and projections for the next three years. It then describes the District's fund structure, including funds outside the operating budget.

Revenues and Expenditures: Past and Future

The District's General Fund has completed its turnaround from its deficit position in the mid-1990s (see figure 3-1). After three years of deficits ending in 1996, the District posted large surpluses in 1997 and 1998, with its fund balance becoming positive again in 1998. Six additional surpluses have followed.

Revenue and operating expenditure trends are discussed in more detail in the respective chapters that follow this one. The financial plan shows fairly small surpluses, as a percentage of the District's budget, for the next three years.

Understanding the Financial Plan

The financial plan is a synopsis of past, present, and future activity related to the General Fund operating budget. The General Fund includes all revenues raised locally by the District, both Local funds--collected through taxes and general non-tax revenue sources such as fees and fines--and

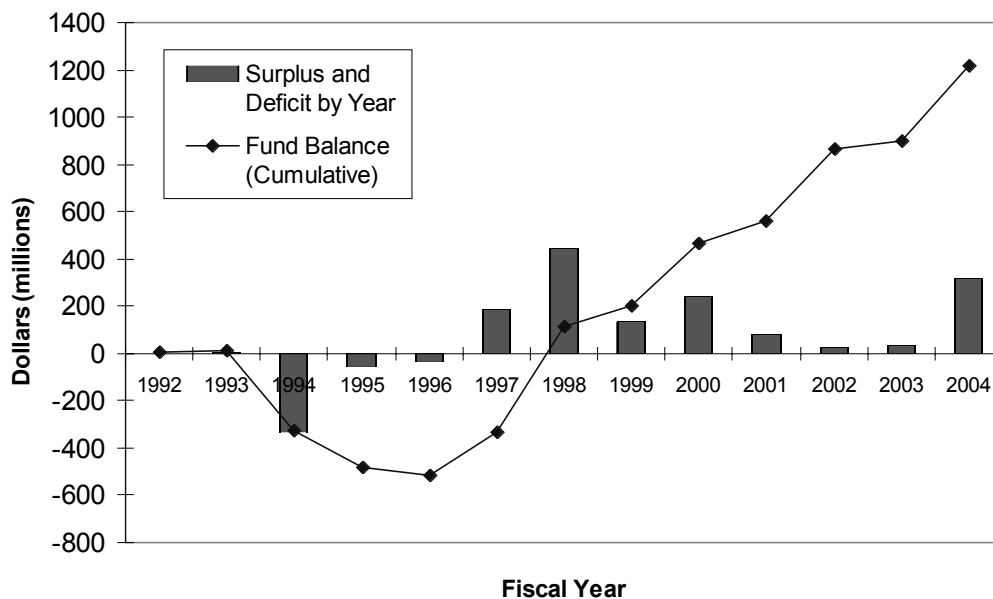
Special Purpose Revenue funds--certain fees collected by and dedicated to agencies for specific purposes through District legislation. Along with the full financial plan for the General Fund, which includes fund balance and reserve fund projections, shorter summaries of the Local and Special Purpose Revenue components of the plan are included.

The General Fund financial plan displayed in table 3-2 includes the Mayor's proposed community investments and resident dividends. A brief financial plan for Local funds, based on the core budget without these additional items, is included later in this chapter as table 3-6.

The operating budget, the primary focus of this budget volume and Volumes 2 through 4, includes the General Fund and the Federal and Private Resources Fund. The sum of activity related to the General Fund and the Federal and Private Resources Fund is sometimes called the District's "Gross Funds" budget. This chapter includes a financial plan for the Federal and

Figure 3-1

General Fund Surplus/Deficit and Fund Balance, FY 1992 - FY 2004



Private Resources Fund, table 3-5. Finally, other funds that capture financial activity related to the District are discussed after the presentation of the financial plan.

The General Fund financial plan covers six fiscal years:

- FY 2004 financial data from the CAFR;
- the FY 2005 approved budget and adjusted budget;
- the FY 2006 proposed budget, the topic of the remainder of this volume and Volumes 2 through 4; and
- projections of both revenues and expenditures for FYs 2007 through 2009.

The Chief Financial Officer certifies revenues periodically, and details on revenue trends and future estimates are included in the Revenues chapter of this volume. The financial plan includes the use of both current-year revenues and fund balance—that is, accumulated funds from prior years—for one-time purposes. The plan also displays the effects of proposed revenue initiatives. Expenditures are projected based in part on past trends, and more details are in the

Operating Expenditures chapter of this volume. The financial plan also includes assumptions about the use of reserves and other means of financing

The District uses the multi-year financial plan as a working tool throughout the fiscal year to monitor the impact of legislative proposals, programmatic initiatives, and economic changes on the District's near-term fiscal outlook. The plan is primarily a budget document, but it has aspects of an accounting document and a cash flow document. It includes projections of the effects of budget decisions on the fund balance, and it considers the maintenance of certain required reserve funds.

Below are line-item descriptions of the financial plan elements. For explanatory purposes, the plan is broken into four sections:

- revenues;
- expenditures;
- fund balance, Generally Accepted Accounting Principles (GAAP) adjustments, and transfers; and
- composition of fund balance.

Revenues

1. Taxes. Includes property, sales, income, and other taxes, which are projected by the Office of Revenue Analysis. See the Revenue chapter for details.

2. General Purpose Non-Tax Revenues. Includes revenue from licenses and permits, parking and traffic fines, charges for services, interest income, and other revenue sources that are not dedicated to particular purposes. See the Revenue chapter for details.

3. Special Purpose (O-Type) Revenues. Special Purpose Revenues are O-type or Other revenues from charges and fees that are collected and spent by the collecting agency. This pool is distinct from the non-tax revenue category above, which is part of the general pool of discretionary general fund revenue.

4. Transfer from Lottery. Reflects the portion of D.C. Lottery and Charitable Games Control Board revenue that is transferred to the District's general fund.

5. General Fund Revenues. The sum of lines 1 through 4.

6. Bond Issuance Costs. The cost of issuing General Obligation bonds is included as revenue, since that portion of the entire issuance is retained in the General Fund rather than going to the capital fund.

7. Payment-in-Lieu-of-Taxes from WASA. The Water and Sewer Authority (WASA) makes a payment-in-lieu-of-taxes (PILOT) to the District. The amount on this line was initially subtracted from the PILOT but is added back in, because the revenues must be recorded on a gross basis. (Related expenditures are also included below.)

8. Transfer from Federal and Private Resources. Reflects the movement of federal grant dollars into Local funds to pay for certain indirect costs.

9. Fund Balance Use. Includes funds that fell to the fund balance in a prior year but which the District is proposing to use in the current year. In FY 2006, this includes a large amount of Local fund balance that finances transfers to other District funds (on lines 24 through 26), certain one-time expenditures, and Special Purpose Revenues that some agencies have budgeted to spend from their accumulated fund balances.

10. Transfer from Local to Special Purpose Revenues. Funds are proposed to be transferred from Local to Special Purpose Revenues. In the General Fund plan, this line nets to zero, but the amount can be seen in the detail tables (tables 3-3 and 3-4).

11. Transfer to Capital. Parking fees are proposed to be transferred to the Capital fund, representing a revenue loss to the General Fund.

12. Revenue Proposals/One-Time Revenues. Reflects one-time revenues in FY 2005 and proposed revenue changes that are detailed in the Revenue chapter of this volume.

13. Total General Fund Resources. The sum of lines 5 through 12.

Expenditures

14. - 19. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter.

20. Financing and Other. Includes Repayment of Debt, Short-Term Borrowings, Certificate of Participation, and other items in this appropriation title that are not specifically shown in lines 21 and 22.

21. Cash Reserve (Budgeted Contingency). The District is required to budget for a cash reserve of \$50 million each year, to provide budgetary stability in the absence of the budgeted reserve, which was eliminated after FY 2003.

22. Lease Purchase Costs. Additional costs in FYs 2008 and 2009 for lease purchase arrangements associated with development of new government facilities, including hospitals.

23. Subtotal, Operating Expenditures. The sum of lines 14 through 22.

24. Paygo Capital. A transfer to the capital fund to increase capital financing for FY 2006.

25. Transfer to Trust Fund for Post-Employment Benefits. A transfer in FY 2006 to reduce the District's accumulated liability for health insurance costs for retirees. These costs must be recognized beginning in FY 2008, and without a transfer to reduce the current liability (over \$300 million), the costs in FY 2008 and FY 2009 would be somewhat larger.

26. General Fund Contribution to Capital Fund Balance. A transfer to reduce the accumulated shortfall in the capital fund.

27. Total General Fund Expenditures. The sum of lines 23 through 26.

28. Operating Margin, Budget Basis. The difference between Total General Fund Resources and Expenditures (lines 13 and 27).

Fund Balance, GAAP Adjustments and Transfers

29. Beginning General Fund Balance. Shows the accumulated fund balance at the beginning of the fiscal year, which is identical to the end of year fund balance for the previous fiscal year.

30. Operating Margin, Budget Basis. Restatement of line 28.

31. Projected GAAP Adjustments (Net). GAAP adjustments are year-end adjustments necessary to properly report the ending fund balance on an accounting basis by converting budgeted activity to resources earned and used in the current fiscal year. This includes items such as fund balance released from restrictions, current

year purchases used to build up ending inventory levels, and the current year net consumption of inventories purchased in prior years.

32. Deposits into Reserve Funds (From Fund Balance). Funds will be moved from the fund balance into the Emergency and Contingency Reserve Funds each year. See the discussion on page 3-7.

33. Deposits into Reserve Funds (To Cash Reserves). Shows that funds deposited into the reserve funds remain in the General Fund balance.

34. Tax Increment Financing (TIF) Reserve (From Fund Balance). The District holds a reserve in its fund balance against potential revenue shortfalls within the TIF program.

35. Unspent TIF Reserve. The amount on line 34 is added back to the General Fund balance, under the assumption that revenues from the TIF program will be sufficient and thus the reserve will not be spent.

36. Fund Balance Use. The amount of prior-year fund balance that is used in the current year (line 9) must be subtracted when calculating the current year-end fund balance.

37. Ending General Fund Balance. Shows the sum of the beginning fund balance, the budget-basis operating margin, and GAAP and other adjustments (lines 29 through 36).

Composition of Fund Balance

38. Emergency Cash Reserve Balance (2%, Formerly 4%). The District was required to establish an Emergency Reserve, by the end of FY 2004, equal to four percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to be two percent, and the base for the calculation was also changed.

39. Contingency Cash Reserve Balance (4%, Formerly 3%). The District was required to

establish a Contingency Reserve equal, by the end of FY 2007, to three percent of the District's Local expenditures. The requirement was satisfied in FY 2002. In FY 2005, the requirement was changed to be four percent, and the base for the calculation was also changed.

40. Fund Balance not in Emergency and Contingency Reserves. Reflects the portion of the fund balance that is not composed of the two cash reserve funds. This line item does not reflect available funds, because there are several other restrictions on the District's fund balance in addition to cash reserve balances, such as bond escrow. Fund balance restrictions are addressed thoroughly in the District's Comprehensive Annual Financial Report.

41. Ending General Fund Balance (Line 37). Reflects the sum of lines 38 through 40, representing the various components of the fund balance.

Discussion: Fund Balance

The fund balance reflects the cumulative earn-

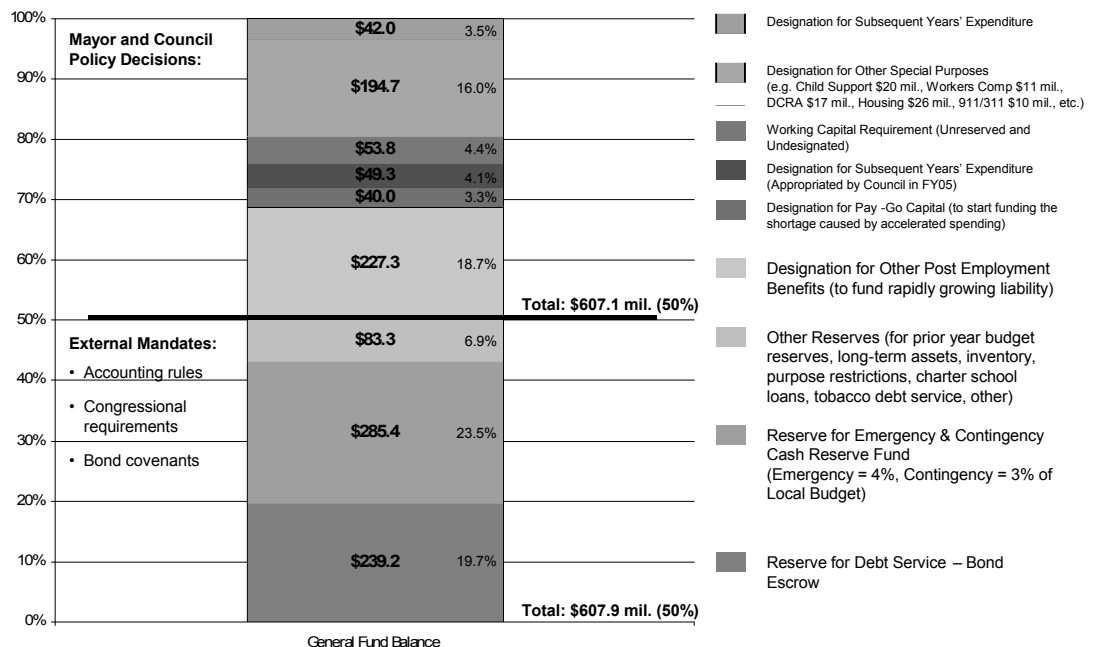
ings of the District. At the end of each fiscal year, fund balance adjustments are made to show the effects of the current year's financial transactions. Year-end adjustments are made so the financial statements are presented in accordance with GAAP. Implementing accounting pronouncement 34 of the Government Accounting Standards Board (GASB 34) resulted in a significant restatement of the FY 2002 fund balance at October 1, 2001.

The general fund balance has two major components: (1) reserved and (2) unreserved. The unreserved fund balance is apportioned further into designated and undesignated components. Figure 3-2 shows the components of the District's General Fund balance.

Reserved Fund Balance

To use reserved fund balance items, the District must have approval from the external entity that has imposed the restriction. The reserved balance has been dominated historically by bond escrow, that is, accumulated cash that the District is required to maintain for debt service payments in the coming year. More recently, the

Figure 3-2
Composition of General Fund Balance, September 30, 2004



Total as of September 30, 2004: **\$1,215.0 million**

reserved balance has been dominated by the congressionally mandated Emergency and Contingency (cash) Reserves.

Unreserved Fund Balance

Unreserved but Designated Fund Balance. The designated component of the fund balance contains items that have been purpose restricted by the legislative or executive branch of the District government.

Unreserved and Undesignated Fund Balance. Those items that fall into this category have neither internal nor external claims against them. Unlike most large cities, the District is prohibited from accessing these funds.

Comprising elements of budgeting and accounting, the financial plan reflects GAAP adjustments as well as transfers between fund balance and cash reserves that do not affect the budget basis operating margin. Hence, these items are sometimes referred to as "below-the-line" adjustments because they are outside of the budget but impact the District's financial statements.

Discussion: Filling Emergency and Contingency Reserves

The District was required to fill the Emergency Reserve at four percent of its local budget by the end of FY 2004 and to fill the Contingency Reserve at three percent by the end of FY 2007. In FY 2002, the District filled both funds to the combined level of seven percent, or \$248.7 million. This seven-percent level was maintained during FYs 2003 and 2004.

In its FY 2005 Appropriations Act, the District's requirement was lowered to six percent, and the calculation was changed to be based on a past year rather than the current. Congress made this change in part to recognize the District's success in restoring its fiscal balance. The District was allowed to withdraw part of the excess funds, that is, convert them to undesignated fund balance. However, it was not allowed to withdraw all of the excess above six percent of the new target. Table 3-1 summarizes the District's previous and new reserve requirements.

Table 3-1

Change in the District's Reserve Requirements, FY 2005

(\$ millions)

	FY 2004	FY 2005
Total required (%)	7%	6%
Breakout by component	Emergency = 4%, Contingency = 3%	Contingency 4%, Emergency = 2%
Base to be used	Current year's proposed G.F. budget	Previous year's G.F. expenditures, less debt service
Dollar value of base (start)	4,077,272	3,813,172
Adjustment (debt service)	n/a	-250,649
Dollar value of base (actual)	4,077,272	3,562,523
Dollar value required (actual for 2004, theoretical for 2005)	285,409 (7%)	213,751 (6%)

NOTE: For FY 2005, the above amount is theoretical. In practice, Congress allowed the District to withdraw funds from the reserves for the change in the base to (prior year expenditures less debt service) but NOT to withdraw funds for the change from 7% to 6%. So the actual amount for FY 2005 is computed below.

Dollar value of base (actual, from above)	3,562,523
Dollar value required	249,377 (7%)
Breakout by component	Contingency = 166,251, Emergency = 83,126

NOTE: The breakout assumes that the overfunded amount is split with 2/3 going to Contingency and 1/3 going to Emergency, per the new ratio between the two.

Table 3-2

FY 2006 - FY 2009 Proposed Budget and Financial Plan: General Fund

(\$ thousands)

Revenues	FY 2004 Actual	FY 2005 Approved	FY 2005 Adjusted	FY 2006 Proposed	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
1 Taxes	3,665,195	3,628,730	3,875,218	4,101,159	4,329,826	4,610,436	4,890,072
2 General Purpose Non-Tax Revenues	324,493	292,447	330,973	340,522	342,896	338,513	346,573
3 Special Purpose (O-type) Revenues	240,253	208,624	236,026	237,925	239,013	237,364	235,969
4 Transfer from Lottery	<u>73,500</u>	<u>71,100</u>	<u>70,000</u>	<u>73,100</u>	<u>73,100</u>	<u>73,100</u>	<u>73,100</u>
5 General Fund Revenues	4,303,441	4,200,901	4,512,217	4,752,706	4,984,835	5,259,413	5,545,714
6 Bond Issuance Costs	0	0	15,400	40,000	16,000	16,000	15,615
7 Payment-in-Lieu-of-Taxes from WASA	0	0	1,500	1,576	1,622	1,669	1,717
8 Transfer from Federal and Private Resources	0	6,361	6,361	6,502	6,646	6,807	6,979
9 Fund Balance Use	129,128	165,015	165,015	569,021	0	0	0
10 Transfer from Local to Special Purpose Revenues	0	0	0	0	0	0	0
11 Transfer to Capital	0	0	0	(30,000)	(30,300)	(30,603)	(30,909)
12 Revenue Proposals/One-time Revenue	<u>0</u>	<u>128,107</u>	<u>27,000</u>	<u>(31,302)</u>	<u>(32,802)</u>	<u>(34,602)</u>	<u>(36,102)</u>
13 Total General Fund Resources	4,432,569	4,500,384	4,727,493	5,308,503	4,946,001	5,218,684	5,503,013
Expenditures (by Appropriation Title)							
14 Governmental Direction and Support	231,364	315,813	327,899	335,621	321,862	331,638	341,742
15 Economic Development and Regulation	148,949	241,570	216,715	290,473	214,027	219,451	225,028
16 Public Safety and Justice	746,066	790,815	799,194	837,693	863,736	890,207	918,478
17 Public Education System	1,029,193	1,067,666	1,055,821	1,169,258	1,144,016	1,172,294	1,201,334
18 Human Support Services	1,117,035	1,192,755	1,244,598	1,303,150	1,340,956	1,395,338	1,452,313
19 Public Works	314,620	327,936	328,334	364,144	376,354	393,651	411,842
20 Financing and Other	400,963	511,692	468,917	566,421	613,317	641,637	669,921
21 Cash Reserve (Budgeted Contingency)	0	50,000	15,000	50,000	50,000	50,000	50,000
22 Lease Purchase Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,000</u>	<u>25,000</u>
23 Subtotal, Operating Expenditures	3,988,190	4,498,247	4,456,478	4,916,760	4,924,268	5,114,216	5,295,658
24 Paygo Capital	0	0	0	198,900	0	0	0
25 Transfer to Trust Fund for Post-Employment Benefits	0	0	0	138,000	0	81,000	86,200
26 General Fund Contribution to Capital Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>53,800</u>	<u>0</u>	<u>0</u>	<u>0</u>
27 Total General Fund Expenditures	3,988,190	4,498,247	4,456,478	5,307,460	4,924,268	5,195,216	5,381,858
28 Operating Margin, Budget Basis	444,379	2,137	271,015	1,043	21,733	23,467	121,155
29 Beginning General Fund Balance	897,357	1,215,015	1,215,015	1,301,015	713,037	714,770	718,237
30 Operating Margin, Budget Basis	444,379	2,137	271,015	1,043	21,733	23,467	121,155
31 Projected GAAP Adjustments (Net)	2,407	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)	(20,000)
32 Deposits into Reserve Funds (From Fund Balance)	(31,609)	(19,041)	36,032	(4,489)	(4,570)	(37,667)	(5,330)
33 Deposits into Reserve Funds (To Cash Reserves)	31,609	19,041	(36,032)	4,489	4,570	37,667	5,330
34 Tax Increment Financing (TIF) Reserve (From Fund Balance)	0	(9,710)	(9,710)	(9,710)	(9,710)	(9,710)	(9,710)
35 Unspent TIF Reserve	0	9,710	9,710	9,710	9,710	9,710	9,710
36 Fund Balance Use	<u>(129,128)</u>	<u>(165,015)</u>	<u>(165,015)</u>	<u>(569,021)</u>	<u>0</u>	<u>0</u>	<u>0</u>
37 Ending General Fund Balance	1,215,015	1,032,137	1,301,015	713,037	714,770	718,237	819,392
Composition of Fund Balance							
38 Emergency Cash Reserve Balance (2%, formerly 4%)	163,091	179,930	83,126	84,622	86,145	98,701	100,477
39 Contingency Cash Reserve Balance (4%, formerly 3%)	122,318	124,520	166,251	169,244	172,290	197,401	200,955
40 Fund Balance not in Emergency & Contingency Reserves	<u>929,606</u>	<u>727,687</u>	<u>1,051,638</u>	<u>459,172</u>	<u>456,335</u>	<u>422,135</u>	<u>517,960</u>
41 Ending General Fund Balance (Line 37)	1,215,015	1,032,137	1,301,015	713,037	714,770	718,237	819,392

Table 3-3

Local Funds Component of the General Fund Financial Plan

(\$ thousands)

Revenues	FY 2004 Actual	FY 2005 Approved	FY 2005 Adjusted	FY 2006 Proposed	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
1 Taxes	3,665,195	3,628,730	3,875,218	4,101,159	4,329,826	4,610,436	4,890,072
2 General Purpose Non-Tax Revenues	324,493	292,447	330,973	340,522	342,896	338,513	346,573
4 Transfer from Lottery	<u>73,500</u>	<u>71,100</u>	<u>70,000</u>	<u>73,100</u>	<u>73,100</u>	<u>73,100</u>	<u>73,100</u>
5 General Fund Revenues	4,063,188	3,992,277	4,276,191	4,514,781	4,745,822	5,022,049	5,309,745
6 Bond Issuance Costs	0	0	15,400	40,000	16,000	16,000	15,615
7 Payment-in-Lieu-of-Taxes from WASA	0	0	1,500	1,576	1,622	1,669	1,717
8 Transfer from Federal and Private Resources	0	6,361	6,361	6,502	6,646	6,807	6,979
9a Fund Balance Use: Transfers to Capital and Trust Fund	0	0	0	390,700	0	0	0
9b Fund Balance Use: One-time Expenditures in FY	97,361	49,365	49,365	76,230	0	0	0
10 Transfer to Special Purpose Revenues	0	0	0	(54,340)	(55,381)	(56,676)	(58,964)
11 Transfer to Capital	0	0	0	(30,000)	(30,300)	(30,603)	(30,909)
12 Revenue Proposals/One-time Revenue	<u>0</u>	<u>119,620</u>	<u>27,000</u>	<u>(41,100)</u>	<u>(42,600)</u>	<u>(44,400)</u>	<u>(45,900)</u>
13 Total General Fund Resources	4,160,549	4,167,623	4,375,817	4,904,349	4,641,809	4,914,846	5,198,283
Expenditures (by Appropriation Title)							
14 Governmental Direction and Support	215,030	261,068	273,154	291,980	298,459	307,634	317,120
15 Economic Development and Regulation	61,717	55,764	70,194	96,137	86,273	88,675	91,149
16 Public Safety and Justice	727,709	760,849	769,228	773,456	804,941	829,646	856,094
17 Public Education System	1,021,982	1,058,709	1,046,864	1,157,555	1,136,485	1,164,597	1,193,466
18 Human Support Services	1,099,127	1,165,314	1,217,157	1,268,769	1,314,359	1,367,960	1,424,129
19 Public Works	303,472	312,035	312,433	317,374	332,744	348,804	365,720
20 Financing and Other	400,963	501,746	458,971	557,335	596,815	633,063	668,250
21 Cash Reserve (Budgeted Contingency)	0	50,000	15,000	50,000	50,000	50,000	50,000
22 Lease Purchase Costs	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20,000</u>	<u>25,000</u>
23 Subtotal, Operating Expenditures	3,830,000	4,165,486	4,163,001	4,512,606	4,620,076	4,810,379	4,990,928
24 Paygo Capital	0	0	0	198,900	0	0	0
25 Transfer to Trust Fund for Post-Employment Benefits	0	0	0	138,000	0	81,000	86,200
26 General Fund Contribution to Capital Fund Balance	<u>0</u>	<u>0</u>	<u>0</u>	<u>53,800</u>	<u>0</u>	<u>0</u>	<u>0</u>
27 Total General Fund Expenditures	3,830,000	4,165,486	4,163,001	4,903,306	4,620,076	4,891,379	5,077,128
28 Operating Margin, Budget Basis	330,549	2,137	212,816	1,043	21,733	23,467	121,155

Table 3-4

Special Purpose Revenue Component of the General Fund Financial Plan

(\$ thousands)

Revenues	FY 2004 Actual	FY 2005 Approved	FY 2005 Adjusted	FY 2006 Proposed	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
3 Special Purpose (O-type) Revenues	<u>240,253</u>	<u>208,624</u>	<u>236,026</u>	<u>237,925</u>	<u>239,013</u>	<u>237,364</u>	<u>235,969</u>
5 General Fund Revenues	240,253	208,624	236,026	237,925	239,013	237,364	235,969
9 Fund Balance Use	31,767	115,650	115,650	102,091	0	0	0
10 Transfer from Local Revenues	0	0	0	54,340	55,381	56,676	58,964
12 Revenue Proposals/One-time Revenue	<u>0</u>	<u>8,487</u>	<u>0</u>	<u>9,798</u>	<u>9,798</u>	<u>9,798</u>	<u>9,798</u>
13 Total General Fund Resources	272,020	332,761	351,676	404,154	304,192	303,837	304,730
Expenditures (by Appropriation Title)							
14 Governmental Direction and Support	16,334	54,745	54,745	43,641	23,403	24,004	24,622
15 Economic Development and Regulation	87,232	185,806	146,521	194,336	127,754	130,776	133,879
16 Public Safety and Justice	18,357	29,966	29,966	64,237	58,795	60,561	62,384
17 Public Education System	7,211	8,957	8,957	11,703	7,531	7,697	7,868
18 Human Support Services	17,908	27,441	27,441	34,381	26,597	27,378	28,184
19 Public Works	11,148	15,901	15,901	46,770	43,610	44,847	46,122
20 Financing and Other	<u>0</u>	<u>9,946</u>	<u>9,946</u>	<u>9,086</u>	<u>16,502</u>	<u>8,574</u>	<u>1,671</u>
27 Total General Fund Expenditures	158,190	332,761	293,477	404,154	304,192	303,837	304,730
28 Operating Margin, Budget Basis	113,830	0	58,199	0	0	0	0

Fund Structure

The General Fund, as discussed, is one of many funds that capture the District's financial activities. Other funds and reporting entities, both governmental and non-governmental, are included in the District's CAFR and are discussed below. The primary categories are:

- Governmental Funds,
- Proprietary Funds,
- Fiduciary Funds, and
- Component Units.

In FY 2006, the District is publishing six budget volumes, four covering the operating budget and two covering the capital budget. The operating budget includes revenues and expenditures in the General Fund and the Federal and Private Resources Fund. These two operating budget funds, plus two capital funds and two non-major funds, are considered governmental funds. In addition, the District's finances reflect a number of other entities that are considered non-governmental, including Proprietary Funds, Fiduciary Funds, and Component Units, some of which are discussed in the operating budget volumes.

Governmental Funds

Governmental Funds consist of two operating, two capital, and two special revenue funds.

Operating Funds

The District's operating budget is the primary focus of this budget volume and Volumes 2 through 4. The operating budget has a variety of funding sources and has two components: the General Fund and the Federal and Private Resources Fund.

General Fund:

Local Funds are the District's primary source of revenue.

- All the District's tax receipts, the larger of which are income taxes, sales taxes, and property taxes, go into Local Funds.
- In addition, certain non-tax revenues (those fines, fees, and miscellaneous revenues not dedicated for a particular agency's use) are part of Local Funds.

- Finally, an annual transfer from the Lottery goes into Local Funds.

Special Purpose Revenues are collected by District agencies and, by law, are dedicated to support the functions those agencies perform. Examples include certain fees and permit charges that the public pays for and whose proceeds are used by the agency to carry out operations in that same area. Some agencies retain unused revenues collected in a given fiscal year in the dedicated portion of the Fund Balance. They are allowed to spend those revenues, if they receive appropriation authority to do so, in a succeeding year.

Federal and Private Resources Fund:

- Federal Grants are grants the District receives from federal agencies, including block grants, formula grants, certain entitlements, and competitive grants.
- Federal Payments are direct appropriations from the Congress to the District, usually to a particular District agency for a particular purpose.
- Federal Medicaid Payments are the federal share of the District's Medicaid costs. Generally, the federal government pays 70 percent of the cost of Medicaid while the District pays 30 percent, although the proportions differ in certain circumstances.
- Private Grants are grants the District receives from non-Federal sources. This category includes private donations.

Table 3-5 displays a summary financial plan for the Federal and Private Resources Fund. The line items are as follows:

F1. Federal Grants. Federal grant awards received by District agencies.

F2. Federal Payment/Contribution. Funding contributed by the federal government for specific projects. These funds are restricted in use by the federal government.

F3. Private Grants. Revenues received from private grants.

F4. Federal and Private Resources.

F5. Fund Balance Use. Reflects amounts previously contained in the fund balance that have been released for use in the current year.

F6. Transfer to General Fund. Funds used to pay for indirect costs, as shown on line 8 of the General Fund financial plan.

F7. Total Federal and Private Resources.

F8. – F14. Agency Expenditures. These items reflect agency expenditures by appropriation title. The growth of expenditures in the out-years is based on growth assumptions that are discussed in the Operating Expenditures chapter.

F15. Total Federal and Private Resources Fund Expenditures.

F16. Operating Margin, Budget Basis. This line provides the difference between Total Federal and Private Resources and Total Federal and Private Expenditures.

F17. - F21. Fund Balance Calculations.

A Note on Intra-District Budgets:

Intra-District budgets represent agreements between two agencies whereby one agency purchases services from the other. The buying agency spends its own budget (Local, Special Purpose Revenue, Federal, or Private). The selling agency receives this expenditure as intra-District revenue, establishes intra-District budget authority, and spends against that authority to provide the service.

An agency's total "gross funds" budget

Table 3-5
Federal and Private Resources Financial Plan
(\$ thousands)

	FY 2004 Actual	FY 2005 Approved	FY 2005 Adjusted	FY 2006 Proposed	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Revenues							
F1 Federal Grants	1,612,138	1,693,915	1,693,915	1,839,317	1,885,108	1,930,246	1,976,537
F2 Federal Payment/Contribution	116,207	59,300	59,300	34,500	0	0	0
F3 Private Grants	8,755	13,314	13,314	10,807	11,123	11,439	11,766
F4 Federal & Private Resources	1,737,100	1,766,529	1,766,529	1,884,624	1,896,231	1,941,685	1,988,303
F5 Fund Balance Use	32,472	0	0	0	0	0	0
F6 Transfer to General Fund	0	(6,361)	(6,361)	(6,502)	(6,646)	(6,807)	(6,979)
F7 Total Federal & Private Resources	1,769,572	1,760,168	1,760,168	1,878,122	1,889,584	1,934,878	1,981,324
Expenditures (by Appropriation Title)							
F8 Governmental Direction and Support	67,347	100,256	100,256	104,088	106,695	109,265	111,899
F9 Economic Development and Regulation	90,769	93,175	93,175	118,312	121,433	124,522	127,698
F10 Public Safety and Justice	22,994	7,908	7,908	10,577	9,566	9,855	10,154
F11 Public Education System	198,124	198,759	198,759	240,194	212,484	217,923	223,515
F12 Human Support Services	1,347,795	1,341,070	1,341,070	1,396,576	1,430,795	1,464,468	1,498,972
F13 Public Works	11,579	4,000	4,000	8,375	8,611	8,845	9,086
F14 Financing and Other	10,289	15,000	15,000	0	0	0	0
F15 Total Federal & Private Expenditures	1,748,897	1,760,168	1,760,168	1,878,122	1,889,584	1,934,878	1,981,324
F16 Operating Margin, Budget Basis	20,675	0	0	0	0	0	0
F17 Beginning Federal & Private Fund Balance	150,220	139,607	139,607	139,607	139,607	139,607	139,607
F18 Operating Margin, Budget Basis	20,675	0	0	0	0	0	0
F19 Projected GAAP Adjustments (Net)	1,184	0	0	0	0	0	0
F20 Fund Balance Use	(32,472)	0	0	0	0	0	0
F21 Ending Federal & Private Fund Balance	139,607	139,607	139,607	139,607	139,607	139,607	139,607

includes its intra-District budget authority. Because such arrangements appear as expenditures twice, once in each agency, the intra-District totals are excluded from the District-wide calculations of the total “gross funds” budget. They also are excluded from the CAFR totals at the end of the year.

Capital Funds

The District's Capital Budget is the focus of the other two budget volumes. The Capital Budget has two components: the General Capital Improvements Fund and the Highway Trust Fund.

- The General Capital Improvements Fund accounts for all capital projects activity not in the Highway Trust Fund.
- The Highway Trust Fund accounts for capital projects financed entirely or partly by transfers of taxes, fees, capital grants, and other revenue that is dedicated to highway projects. This budget volume is produced in June for the Congressional budget submission.

Special Revenue Funds

Special Revenue Funds account for specific revenue that is legally restricted to expenditures for particular purposes. The District currently has three such funds:

- The Tobacco Settlement Financing Program accounts for activities relating to the tobacco litigation settlement.
- The Tax Increment Financing Program accounts for activities relating to tax increment financing development initiatives.
- The Ballpark Revenue Fund is described in the Special Studies volume.

Proprietary Funds

Proprietary Funds are District units that charge customers for the services provided, whether to outside customers or to other units of the District. The District has three Proprietary Funds:

- D.C. Lottery and Charitable Games Board, which not only operates and is financed like a private business where net income is key to sound management, but also can finance the

costs of its goods and services provided to the public on a continuing basis primarily through user charges. The Lottery accounts for revenue from lotteries and daily numbers games all operated by the District and from licenses to conduct charitable games. The Lottery exists solely to transfer its profits to help finance the General Fund.

- Unemployment Compensation Fund, which accounts for funds used to pay benefits to unemployed former employees of the District, federal government, and private employers within the District. The fund is administered by the Department of Employment Services.
- Non-Major Proprietary Fund, which includes three entities grouped as Nursing Home Services:
 - Washington Center for Aging Services
 - Washington Center for Aging Services Center Care
 - JB Johnson Nursing Center.

Fiduciary Funds

Fiduciary Funds account for assets held by the District in a trustee capacity or as an agent for private entities, other governments, and/or other District funds. The District's fiduciary funds are:

- Pension Trust Funds, which account for resources used for retirement annuity payments for police officers, firefighters, public school teachers and their survivors. The funds are administered by a 13-member Retirement Board.
- Private Purpose Trust Funds, of which the District has one--the College Savings Investment Plan. This plan provides families with tax advantages as they save for college expenses.
- Agency funds, which account for refundable deposits required of various licenses, monies held in escrow, and other assets held by the District in a purely custodial capacity.

Component Units

Component Units are legally separate organizations for which the elected officials of the District are financially accountable because their governing bodies are appointed by District officials.

Budgets for these entities are presented in section H, Enterprise and Other Funds, of Volume 2. The District has five Component Units:

- D.C. Water and Sewer Authority, which accounts for the provision of water and sewer services to the District, and specific counties in Maryland and northern Virginia.
- Washington Convention Center Authority, which accounts for maintaining and operating the Washington Convention Center for local public shows, civic events, and other activities.
- Sports and Entertainment Commission, which accounts for maintaining and operating the National Guard Armory for nonmilitary events and the Robert F. Kennedy Memorial Stadium and promoting the District as a sporting event site.
- Housing Finance Agency, which accounts for cash received from public and private sources used to alleviate the shortage of housing

through greater supply and less expensive mortgage and construction loans.

- University of the District of Columbia (UDC), which accounts for resources received and used by the University of the District of Columbia. The unit contains four separate fund groups: Current Funds, Loan Fund, Endowment Fund, and Plant Funds. A budget is prepared for only the Current Funds. This budget is in the Enterprise and Other Funds section; the General Fund includes only the subsidy from Local funds to the University.

Core Budget Financial Plan

Table 3-6 displays the financial plan, for Local funds only, based on the FY 2006 core budget. This budget would omit fund balance use (and the associated transfers to various funds), one-time spending, certain enhancements, and revenue proposals.

Table 3-6

Local Funds (Core Budget) Component of the General Fund Financial Plan

(\$ thousands)

	FY 2004 Actual	FY 2005 Approved	FY 2005 Adjusted	FY 2006 Proposed	FY 2007 Projected	FY 2008 Projected	FY 2009 Projected
Revenues							
1 Taxes	3,665,195	3,628,730	3,875,218	4,101,159	4,329,826	4,610,436	4,890,072
2 General Purpose Non-Tax Revenues	324,493	292,447	330,973	340,522	342,896	338,513	346,573
4 Transfer from Lottery	73,500	71,100	70,000	73,100	73,100	73,100	73,100
5 General Fund Revenues	4,063,188	3,992,277	4,276,191	4,514,781	4,745,822	5,022,049	5,309,745
6 Bond Issuance Costs	0	0	15,400	40,000	16,000	16,000	15,615
7 Payment-in-Lieu-of-Taxes from WASA	0	0	1,500	1,576	1,622	1,669	1,717
8 Transfer from Federal and Private Resources	0	6,361	6,361	6,502	6,646	6,807	6,979
9 Fund Balance Use: One-time Expenditures in FY	97,361	49,365	49,365	0	0	0	0
10 Transfer to Special Purpose Revenues	0	0	0	(54,340)	(55,381)	(56,676)	(58,964)
12 Revenue Proposals/One-time Revenue	0	119,620	27,000	0	0	0	0
13 Total General Fund Resources	4,160,549	4,167,623	4,375,817	4,508,519	4,714,709	4,989,849	5,275,092
Expenditures (by Appropriation Title)							
14 Governmental Direction and Support	215,030	261,068	273,154	284,222	293,231	302,274	311,624
15 Economic Development and Regulation	61,717	55,764	70,194	62,792	64,651	66,508	68,424
16 Public Safety and Justice	727,709	760,849	769,228	768,600	793,103	817,575	842,843
17 Public Education System	1,021,982	1,058,709	1,046,864	1,096,972	1,128,941	1,160,844	1,193,747
18 Human Support Services	1,099,127	1,165,314	1,217,157	1,237,789	1,270,845	1,303,593	1,337,251
19 Public Works	303,472	312,035	312,433	317,374	325,492	333,264	340,292
20 Financing and Other	400,963	501,746	458,971	541,335	555,518	569,448	583,708
21 Cash Reserve (Budgeted Contingency)	0	50,000	15,000	50,000	50,000	50,000	50,000
22 Lease Purchase Costs	0	0	0	0	0	20,000	25,000
23 Subtotal, Operating Expenditures	3,830,000	4,165,486	4,163,001	4,359,084	4,481,781	4,623,505	4,752,889
25 Transfer to Trust Fund for Post-Employment Benefits	0	0	0	0	0	81,000	86,200
27 Total General Fund Expenditures	3,830,000	4,165,486	4,163,001	4,359,084	4,481,781	4,704,505	4,839,089
28 Operating Margin, Budget Basis	330,549	2,137	212,816	149,435	232,928	285,344	436,003